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FM AMEMBASSY TIRANA  
TO RUEHC/SECSTATE WASHDC PRIORITY 6658  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS SECTION 01 OF 02 TIRANA 000102

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DEPARTMENT FOR EUR/SCE (ERIN KOTHEIMER AND YOULIANA IVANOVA)

PASS TO TREASURY FOR VIMAL ATUKORALA

E.O. 12958:N/A

TAGS: [ECON](#) [PGOV](#) [AL](#)

SUBJECT: FOOD PRICES SKYROCKET AS GOA PINES FOR NATO

REF: A) TIRANA 21 B) 07 TIRANA 1089

Summary

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11. (SBU) Fears that 2008 will bring rising inflation grew as local media extensively reported on price increases for basic food items. Prices for food products, which represent the largest share in the government's basket of consumer goods for measuring inflation, have increased in recent years. This trend had gone unheralded until recently when a drastic price increase for bread, a sensitive item with average daily consumption per capita of 200 grams a day, stoked public ire. The opposition, which had previously ignored inflation as an issue, has seized on the food price increases while the media echoes growing public frustration. Both suggest that Prime Minister Berisha and his government have spent more time looking abroad than seeing to the needs of everyday citizens. End Summary.

12. (U) Throughout 2007, while the Berisha Government took credit for Albania's continuing economic stability and growth, independent sources warned of upcoming economic strain, driven by both imported and domestic inflation. Following a 33 percent increase in bread prices last year, another 25 percent increase occurred in early February. Bread producers have warned that additional increases are coming and that the price of bread could go as high as 120 leke per kilogram, a 100 percent increase from 2006. In the last two years, other food items have seen increases ranging from 25-100 percent. The price of cooking oil increased by 45 percent compared to 2006, while the price of milk grew by approximately 25 percent. Prices for fruits and vegetables also increased substantially. Newspapers have speculated that the price of cooking oil might reach 400 leke per liter, an increase of 250 percent compared to 2006. Experts estimate that Albanians will pay approximately 100 million euros more for bread and cooking oil alone in 2008. (Note: In 2007, Albania's estimated Gross Domestic Product was just over USD 10 billion.)

13. (U) The prevailing suspicion is that price fixing by cartels is the main cause for the disproportionate price increases. Albania imports over half of its grain supply and data from international wheat markets show that the global price of wheat has increased by only 5 percent in recent months, giving some credence to the claim that price increases in the domestic market are speculative. Although inflation overall in 2008 has been forecast by both the Central Bank and the IMF to remain at a modest 3 percent (Ref A), it is widely believed that food price increases are not adequately reflected in official data. (Note: INSTAT, the GOA's statistics agency, is regularly criticized by outside experts, including the IMF, for the unreliability of its data.)

Electricity and Fuel Prices Add to the Crisis

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¶4. (SBU) The inflation burden on consumers is expected to increase given an anticipated rate hike for electricity by at least 15 percent in early March. (Note: The GOA's energy regulatory entity is widely expected to approve a belated increase in electricity rates later this month, which was requested by KESH and urged by donors, Ref B.) An increase in electricity prices would compound the burden of significant fuel price increases during the last year.

Fuel price increases affected businesses ranging from private shops to industrial users, all operating on private generators during frequent blackouts during Albania's prolonged energy crisis. To make matters worse, in the midst of the crisis, the GOA increased the fuel excise tax to offset the loss in revenue resulting from its decision to lower business taxes. Opposition leader Rama recently told supporters that the electricity crisis (which engulfed the country starting in 2005, when the current government took office) is at the heart of the expanding price crisis.

#### Buy-Now-Pay-Later Scheme Reemerges

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¶5. (U) As the effect of food price increases has spread, many low-income families have succumbed to an informal borrowing arrangement originating from the pre-pyramid scheme era (i.e., before the 1997 financial collapse). The scheme allows poor families to buy their daily food items from stores by adding their names to the shopkeeper's list and running a grocery tab. The unwritten agreement is that these families will eventually pay whenever money is available. (Note: The eradication of the buy-now-pay-later scheme was one of the most popular electoral promises of Berisha's 2005 campaign. It has unexpectedly reemerged among the working poor during a time of growing affluence for Albania's emerging middle class.) Also, recent media reports describe a trend in some border regions of the country where inhabitants travel to Montenegro in the north, Macedonia in the

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southeast, and less often to Greece in the south to purchase basic food products at cheaper prices. Apparently, these countries have not been affected by international market prices to the same degree as Albania.

#### Wage, Tax Policies Fail to Address Inflationary Pressure

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¶6. (U) In an attempt to offset the negative effects of aggregate price increases, in 2006 the government increased public employees' salaries as well as pensions and the minimum wage. However, price increases since then have outpaced those raises. Also, the decision by the government to introduce a flat tax on personal income last year translated into higher taxes for almost all taxpayers, including greater burden on the lower income levels. For the past two weeks, the media has been echoing mounting calls by the opposition and some economic experts for the government to intervene to counteract rising food prices. To date, the GOA has resisted this pressure, favoring its current laissez faire economic policies and invoking the merits of market self-regulation.

#### Comment

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¶7. (SBU) Inflation is becoming a pressing political problem for the GOA that significantly impacts people's living standards. Having focused its attention on macroeconomic stability and revenue collection, the Government was caught off guard by the growing public and media pressure that emerged in January. The debate became particularly sharp at a time when the Prime Minister was in Japan with a coterie of ministers and senior officials. Berisha's right-wing coalition won office in 2005 primarily by waving the flag of fighting corruption and organized crime in order to improve the quality of life for ordinary Albanians. However, the real highlight of the Berisha Government turned out to be Euro-Atlantic accession. It stated with ignoring the Stabilization Association Agreement with the EU in 2006, and the Government (admission) believes it might be crowned to participate in NATO membership invitation in

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the last yer tatoneaalytcaled it "the Government of Foegn  
Affairs,"wichis not able to provide stabefod prices for its  
citizens, but sends militaytoops on foreign missions. After  
April, the rm Minister will have to turn to the "bread and  
uter" issues that concern his citizens.

18. SU With the 2009 general elections looming, Bershawill  
also have to ponder national voting patern. Albanian pensioners  
are more than 15 percn of the population; the unemployed are  
estimate at 30 percent (despite an official employment rat that is  
under 14 percent); and most of the popuation has internally  
migrated, creating an entir class of disadvantaged "suburbanites"  
living arund crowded cities. These social groups represent hole  
classes of voters that are the first to be ffected by drastic food  
prices increases. At ths rate, public dissatisfaction over  
spiraling prces could continue to grow, eventually overshadowing  
other positive developments such as Kosovo's independence or a NATO  
invitation. End Comment.

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